Gary Community School Corporation

Distressed Unit Appeals Board

Gary Community School Corporation
Deficit Elimination Plan

September 23, 2016

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GCSC
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INTRODUCTION

This Deficit Elimination Plan (DEP) focuses more on operations and finance and less on education. We fully realize that the primary purpose of the existence of GCSC is to provide educational opportunities for it students. However, the most immediate threat is its financial and operational challenges. Without a stable operational and financial foundation GCSC will not be able to successfully achieve its primary purpose of providing quality education opportunities.

The financial and operational stability or lack thereof, mentioned above, manifests itself in a significant accumulated structural deficit which must be reduced and ultimately eliminated. The reduction and elimination of the structural deficit and annual operating deficit is a multi-faceted task encompassing many areas of Gary Community School Corporation (GCSC) operations. This deficit elimination plan presents data and information that will acquaint the reader with data and information concerning GCSC that will help them understand the complex nature of GCSC as well as, more specifically, its financial operations.

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This Plan provides data and information that centers around key operational and financial drivers such as Indiana school funding, property taxes, debt, student enrollment, facilities, human resources cost, etc. It is through the eyes of these drivers that an attempt is made to acquaint the reader as to how the GCSC now finds itself fighting for its operational and financial life. We have attempted to isolate and focus only on the most significant factors and drivers to equip the reader with sufficient data and information to discern the essence of this DEP.

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The detail complexities, challenges, and opportunities of the scope of GCSC operations are not discussed in this document. That level of understanding is left to the citizens of Indiana and the stakeholders of Gary Indiana.

GARY COMMUNITY SCHOOL CORPORATION			
GENERAL FUND PROJECTIONS			
FY 2016 THROUGH FY 2018			
	PROJECTED	PROJECTED	PROJECTED
	General Fund	General Fund	General Fund
	FY 2016	FY 2017	FY 2018
Beginning Cash Balance	$1,429,947	$2,740,649	($5,842,917)
Income:			
Local Sources:			
Building rentals	$42,000	$36,000	$36,000
Other	65,882	60,000	60,000
Sub-total - local sources	$107,882	$96,000	$96,000
State Sources			
Basic tuition support	$32,807,211	$31,545,600	$29,113,987
Honors diploma grant	27,000	27,000	27,000
Special education grant	3,753,550	3,753,550	3,753,550
Career & technical education	299,000	299,000	299,000
Complexity grant	12,069,585	13,007,104	13,007,104
Less: Common School Fund Loans	(1,828,388)	(1,828,388)	(1,828,388)
Less: Roosevelt Support	(4,829,761)	(5,062,498)	(5,062,498)
Less: DUAB Loan Repayment	0	(2,500,000)	(2,500,000)
Sub-total - state sources	$42,298,197	$39,241,368	$36,809,755

	PROJECTED	PROJECTED	PROJECTED
	General Fund	General Fund	General Fund
	FY 2016	FY 2017	FY 2018
Federal Sources			
Title I Special Education, Title II	$5,671,604	$5,671,604	$5,671,604
Medicaid, erate, indirect, Perkins, JROTC	673,326	750,000	750,000
Food Service Reimbursement to General Fund	597,916	600,000	600,000
Sub-total federal sources	$6,942,846	$7,021,604	$7,021,604
Total Receipts/Revenue	$49,348,925	$46,358,972	$43,927,359
Other Financing Sources			
Temporary State loan - DUAB Common School Fund	$14,582,700	$417,300	$0
Less: Tax receipts more (less) than expenditures	-	-	-
Plus: Common School Loan Reimbursements	1,828,388	1,539,853	1,308,375
Plus: Zero Base Budget Implementation	-	400,000	400,000
Plus: Property Auction	-	100,000	-
Plus: School Closure Savings	0	1,232,993	1,923,537
Sub-total other financing sources	$16,411,088	$3,690,146	$3,631,912
Revenues And Other Financing Sources	$65,760,013	$50,049,118	$47,559,271

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	PROJECTED		PROJECTED		PROJECTED	
	General Fund		General Fund		General Fund	
	FY 2016		FY 2017		FY 2018	
Expenditures:						
Personnel – Salaries	$43,326,015		$39,859,934		$36,671,139	
Personnel – Benefits	11,446,702		10,530,966		9,688,489	
Employer FICA	3,236,016		2,977,134		2,738,964	
Less: Employee Contributions	(2,500,000)		(2,300,000)		(2,116,000)	
Plus: "TRF" and "PERF"	3,449,106		3,173,178		2,919,323	
Non - Personnel Operating Expenses	10,310,574		9,210,574		9,210,574	
Less: Expenses charged to Capital Projects and Transportation						
Funds and Reconciliation Adjustments	(4,819,102)		(4,819,102)		(4,819,102)	
Total Expenditures	$64,449,311		$58,632,684		$54,293,387	
Expenditures and Other Financing Uses	$64,449,311		$58,632,684		$54,293,387	
Revenues And Other Financing Sources Over Expenditures and Other Financing Uses	$1,310,702		($8,583,566)		($6,734,116)	
End-Of-Year Balances	$2,740,649		($5,842,917)		($12,577,033)	
ADM	6,200.0		5,550.0	[1]	5,450.0	[1]
Number Increase (Decrease)	N/A		(650.00)		(100.00)	
Percentage Increase(Decrease)	N/A		-11.71%		-1.82%	
[1] Excludes Roosevelt.						

GARY COMMUNITY SCHOOL CORPORATION		
GENERAL FUND			
COMPUTATION OF PROJECTED FUND BALANCE			
FY 2016 - FY 2018			
	PROJECTED	PROJECTED	PROJECTED
	General Fund	General Fund	General Fund
	FY 2016	FY 2017	FY 2018
PROJECTED OPERATING ENDING CASH BALANCE	$2,740,649	($5,842,197)	($12,577,033)
Prior Year Liabilities Liquidation	(2,616,277)	0	0
Projected Ending Cash Balance	$124,372	($5,842,197)	($12,577,033)
Less Liabilities June 30, :			
Accounts Payables	(9,982,445)	(9,982,445)	(9,982,445)
Internal Revenue Service	(8,000,000)	(8,000,000)	(8,000,000)
Common School Loans	(29,991,012)	(26,859,169)	(23,306,891)
Total liabilities	($47,973,457)	($44,841,614)	($41,289,336)
PROJECTED FUND BALANCE	($47,849,085)	($50,683,811)	($53,866,369)

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GENERAL FUND		
	PROJECTED	PROJECTED	PROJECTED
	General Fund	General Fund	General Fund
	FY 2016	FY 2017	FY 2018
Beginning Cash Balance	$1,429,947	$2,740,649	($5,842,917)
Projected Revenues (Receipts)			
Increases (Decreases)			
Local Resources	107,882	96,000	96,000
Intermediate Sources	0	0	0
State Aid	42,298,197	39,241,368	36,809,755
Federal Grants - Title I, II, Perkins, JROTC	6,942,846	7,021,604	7,021,604
Temporary Financing Sources	16,411,088	3,690,146	3,631,912
Total Revenues and Other Financing Sources	$65,760,013	$50,049,118	$47,559,271
Projected Disbursements (Expenditures)			
Personnel Costs	58,957,839	54,241,212	49,901,915
Other Operating Expenses	5,491,472	4,391,472	4,391,472
Total Disbursements	$64,449,311	$58,632,684	$54,293,387
Annual Operating Surplus (Deficit)	$1,310,702	($8,583,566)	($6,734,116)

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Implemented Expenditure Reduction Initiatives
2016 School Year

Retirements (129) and RIF (32)		$ 5,961,493
Fringe Benefits @ 1.3607%		2,150,311
Total Labor		$ 8,111,804
Property Insurance Premium Reduction		1,100,000
Health Insurance Premium Reduction		700,000
Total		$ 9,911,804
Audit Resolution - Questioned/		
Disallowed Costs - SBOA Performance		
Audit, USDA Child Nutrition Programs		$ 1,910,811
Questioned Costs Resolved -		
MADM Audit Resolution Initiative		1,203,799
Audit Resolution Work in Progress		$ 707,012

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Art Collection

- The Corporation's collection of art works, mostly fine paintings was acquired in the 1920s -1940s and hung with pride in the Gary schools for the cultural enrichment of students and faculty

- Over the years, with dropping enrollment and school closures, the pictures were moved around and records became incomplete. Some pieces were believed to be missing. A year ago we found 100 pieces stored in a dilapidated and vandalized building. Some were in bad condition.

- Since then we have made a slow effort to secure the collection and its future as a resource to the community. There are no plans to sell it or parts of it. Further, we want to recover the missing pieces of the collection.

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- We contacted museums, universities and foundations in Indiana looking for help. In July, Ace Yakey, VP of Community Development at the Lily Endowment referred us to Indiana State Museum, Indianapolis.

- Last month, Mark Ruschman, Chief Curator of Fine Arts and Susanna Koerber, Senior VP of Collections traveled to Chicago to examine the paintings. Afterwards, they were receptive to the idea that the State Museum could hold, conserve and document the collection while preserving ownership by the Corporation. They have a model for such an arrangement in their work with the Indianapolis Public Schools. This Friday we will meet at the Museum to talk further.

DEFICIT ELIMINATION PLAN ASSUMPTIONS AND STRATEGIES
EXECUTIVE SUMMARY

TARGETED EXPENDITURE REDUCTIONS
AND REVENUE ENHANCEMENT ESTIMATES

EXPENDITURE REDUCTIONS/REVENUE ENHANCEMENTS	TARGETED IMPLEMENTATION DATE	ESTIMATED/TARGETED ANNUAL AMOUNT OF REDUCTION
Implementation of Zero Base Budgeting	August 2016	$ 400,000
Enhanced Grant Management	August 2016	1,000,000
Restructure Employee Benefits	January 2016	700,000
Contract Evaluations and Renegotiations	April 2016	1,100,000
Staffing Reductions – 95 employees plus fringe benefits	July 2016	6,300,000
Facilities Closing and Consolidations	2017	1,232,993
Facilities Closing and Consolidations	2018	1,923,537
Surplus Property Auction	TBD	100,000
TOTAL ESTIMATED/TARGETED ANNUAL AMOUNT OF REDUCTION		$12,756,530
Property Tax Referendum	November 2016	The GCSC Board of School Trustees approved a Levy of $.475 to raise approximately $8.7 million in additional revenue assuming a 74% collection rate.
Pupil Enrollment		TBD

Annual Operating Deficits (See Addendum)

The GCSC total deficit is comprised of delinquent accounts payable, Internal Revenue Service Debt and Common School Loans. The focus of this Deficit Elimination Plan is the elimination of the Operating Deficits to allow the GCSC to meet its annual cash flow needs. Three Scenarios are shown that will take the GCSC from its current annual operating deficit to a break-even surplus.

1. **Current state** is the 2017 Forecast shown in the DEP commencing on page 44. This forecast shows a FY17 operating deficit of ($8,583,566).

Initiatives shown on page 6 that are in the process of implementation are school closures, Zero Based Budgeting and the property auction.

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2. **Scenario one** includes in the forecast a further headcount reduction of 95 core employees to realize additional savings in salary and fringe benefit costs of $6.3 million (this savings for FY17 is reduced to $4.2 million since the cuts were not in effect on July 1, 2017).

Scenario one also includes $1 million in forecast additional grant revenue. Scenario one implementation will reduce the estimated operating deficit to ($3,362,566).

3. **Scenario two** assumes that the referendum will be successful and that the GCSC will be able to borrow $6 million against this future revenue stream. If the referendum is successful the 2017 Operating Surplus is forecast to be $2,637,434.

GARY COMMUNITY SCHOOL CORPORATION
DEFICIT ELIMINATION PLAN – FY 2017
ANNUAL OPERATING DEFICIT FORECAST
(REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING ISSUES)

	PROJECTED CURRENT STATE		PROJECTED SCENARIO ONE		PROJECTED SCENARIO TWO
	General Fund				General Fund
	FY 2017		FY 2017		FY 2017
Income:					
Local Sources:					
Building rentals	$36,000		$36,000		$36,000
Other	60,000		60,000		60,000
Sub-total - local sources	$96,000		$96,000		$96,000
State Sources					
Basic tuition support	31,545,600		31,545,600		31,545,600
Honors diploma grant	27,000		27,000		27,000
Special education grant	3,753,550		3,753,550		3,753,550
Career & technical education	299,000		299,000		299,000
Complexity grant	13,007,104		13,007,104		13,007,104
Less: Common School Fund Loans	(1,828,388)		(1,828,388)		(1,828,388)
Less: Roosevelt Support	(5,062,498)		(5,062,498)		(5,062,498)
Less: DUAB Loan Repayment	(2,500,000)		(2,500,000)		(2,500,000)
Sub-total - state sources	$39,241,368		39,241,368		$39,241,368
z					
Title I Special Education, Title II	5,671,604		5,671,604		5,671,604
Medicaid, erate, indirect, Perkins, JROTC	750,000		750,000		750,000
Food Service Reimbursement to General Fund	600,000		600,000		600,000
Sub-total federal sources	7,021,604		7,021,604		7,021,604
	$46,358,972		$46,358,972		$46,358,972

GARY COMMUNITY SCHOOL CORPORATION
DEFICIT ELIMINATION PLAN – FY 2017
ANNUAL OPERATING DEFICIT FORECAST
(REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING ISSUES)

	PROJECTED CURRENT STATE		PROJECTED SCENARIO ONE		PROJECTED SCENARIO TWO
	General Fund				General Fund
	FY 2017		FY 2017		FY 2017
Other Financing Sources					
Temporary State loan - DUAB Common School Fund	417,300		417,300		417,300
Less: Tax receipts more (less) than expenditures	-		-		-
Plus: Common School Loan Reimbursements	1,539,853		1,539,853		1,539,853
Plus: Enhanced Grant Management	-		1,000,000		1,000,000
Plus: Zero Base Budget Implementation	400,000		400,000		400,000
Plus: Property Auction	100,000		100,000		100,000
Plus: School Closure Savings	1,232,993		1,232,993		1,232,993
Plus: Borrowing against Successful Referendum	-		-		6,000,000
Plus: Referendum Proceeds	-		-		-
Plus: Additional Staff Reduction Savings	-		4,221,000		4,221,000
Sub-total other financing sources	$3,690,146		$8,911,146		$14,911,146
Revenues And Other Financing Sources	$50,049,118		$55,270,118		$61,270,118

GARY COMMUNITY SCHOOL CORPORATION
DEFICIT ELIMINATION PLAN – FY 2017
ANNUAL OPERATING DEFICIT FORECAST
(REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING ISSUES)

	PROJECTED CURRENT STATE		PROJECTED SCENARIO ONE		PROJECTED SCENARIO TWO
	General Fund				General Fund
	FY 2017		FY 2017		FY 2017
Expenditures:					
Personnel - Salaries	39,859,934		39,859,934		39,859,934
Personnel - Benefits	10,530,966		10,530,966		10,530,966
Employer FICA	2,977,134		2,977,134		2,977,134
Less: Employee Contributions	(2,300,000)		(2,300,000)		(2,300,000)
Plus: "TRF" and "PERF"	3,173,178		3,173,178		3,173,178
Non - Personnel Operating Expenses	9,210,574		9,210,574		9,210,574
Less: Expenses charged to Capital Projects and Transportation					
Funds and Reconciliation Adjustments	(4,819,102)		(4,819,102)		(4,819,102)
Total Expenditures	58,632,684		58,632,684		58,632,684
Expenditures and Other Financing Uses	58,632,684		58,632,684		58,632,684
Revenues And Other Financing Sources Over (Under) Expenditures and Other Financing Uses	($8,583,566)		($3,362,566)		$2,637,434
ADM	5,550		5,550	[1]	5,550
Number Increase (Decrease)	N/A				
Percentage Increase(Decrease)	N/A				
[1] Excludes Roosevelt.					

DEBT SUMMARY

GCSC, like many other districts, engages in securing economic resources through borrowing and as such creates debt. The following two charts present a summary of GCSC debt along with related details as of June 30, 2015:

Debt Class	Balance June 30, 2015 (A)
Tax Anticipation Warrants - Temporary Loan	$3,750,000
Other Bonds - School Bonds	$11,835,000
Notes and Loans Payable - Holding Company	$42,873,592
Common School Loans	$16,555,739
Total	$75,014,331*
	*See Exhibit IV for Debt Amortization Schedule

		PRINCIPAL
	INTEREST	BALANCE (A)
NAME/DESCIPTIONS	RATE	JUNE 30, 2015
General Obligation Bonds, Series 2009A	4.00%-4.88%	$1,665,000
General Obligation Bonds, Series 2009B	2.25%-5.10%	$1,610,000
General Obligation Bonds, Series 2009C	2.25%-5.10%	$1,665,000
General Obligation Bonds, Series 2009D	4.00%-4.88%	$1,665,000
Ad Valorem Property Tax First Mortgage Refunding Bonds, Series 2012	2.4%-5%	$9,688,592
General Obligation Judgement Funding Bonds, Series 2012	2.00%-3.25%	$5,215,000
Tax Ad Valorem Property Tax First Mortgage Bonds, Series 2013	4.35%	$19,365,000
2015 General Obligation Judgement Bonds, Series 2015	2.00% - 3.50%	$2,000,000
TOTAL		$42,873,592

		PRINCIPAL
	INTEREST	BALANCE (A)
NAME/DESCIPTIONS	RATE	JUNE 30, 2015
Taxable Ad Valorem Property Tax First Mortgage Bonds, Series 2010	6.20%-7.50%	$11,474,224
Kansas State Bank	5.54%	$205,776
$1.86 Million Bond - Qualified Zone Academy		$155,000
TOTAL		$11,835,000
A0508	4.00%	$1,486,436
Debt Name: Loan No: A0521	1.00%	$6,649,500
Debt Name: Loan No: A0513	4.00%	$6,820,000
Debt Name: Loan No: A0525	4.00%	$1,498,503
Debt Name: Loan No: A1436	1.00%	$101,300
TOTAL		$16,555,739
Temporary Loan		$3,750,000
GRAND TOTAL		$75,014,331

Conclusions and Recommendations

The Gary Community School Corporation has faced significant challenges and financial headwinds for many years. The decline of the School Corporation has mirrored the decline of the City of Gary which resulted from the Global Restructuring of the Steel Industry. Job losses have resulted in major declines in the City of Gary population and in the number of school age children in the city. Job losses have also fueled a general economic decline with fewer businesses and individuals paying property taxes.

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Exacerbating these local issues is the nationwide movement away from the traditional public education model. With the passage of the Federal No Child Left Behind Act in 2001 School Choice was seen as a tool to improve K-12 academic improvement throughout the United States. For GCSC this means that approximately one-half (50%) of school aged children in the City of Gary are not receiving their education at a GCSC School.

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There is no evidence that the headwinds facing the City of Gary and the GCSC will abate in the near future, but as other previously great cities are experiencing “turn arounds,” the same can happen in the City of Gary.

The State Board of Accounts Financial Statement and Federal Single Audit Report for the Period July 1, 2012 – June 30, 2014, page 4 and page 15, Note 8, raised “Going Concern” questions regarding the GCSC. MADM concurs with the Auditors Observations. As of the date of this report, the GCSC does not have the revenue to satisfy all of its payroll obligations for the month of September, 2016. This condition exists assuming **no** vendor payments, including employee fringe benefits.

The Auditors noted:

- Challenging Future
  - Debt Burden Too High
  - Continued Loss of Enrollment
  - Vicious Cycle:
    - Student Enrollment Declines
    - Lost Revenue, Cost Cutting and School Closures, Student Enrollment Declines and Lost Revenue

Recommendations:

- Continue implementation of Structural Rightsizing as proposed in the body of this Plan (staff and facilities)
- Eliminate Annual Operating Deficit during the 2017 School Year, currently estimated at approximately $9 million.
- The GCSC has made additional significant reductions in labor expenses during the 2016 school year. As in past years, however, revenue losses have offset expense reduction initiatives. **At the present time the GCSC will not be able to meet all of its payroll obligations for the month of September 2016 which has 3 paydays.** Many of the expense reductions initiatives to which the GCSC Board of School Trustees accepted during the last year were “blocked” when implementation was to occur.

- The immediate implementation of Scenario One will not cure the GCSC short-term cash problem, but will assist in longer term solvency. The GCSC Superintendent has concerns that full implementation of Scenario One will erode the teaching staff to a level that will not permit Gary students to be properly educated. If the Superintendent's conclusions are valid, there must be a discussion of the viability of GCSC as a "Going Concern."

- Engage the Mayor, other elected officials and citizens of the City of Gary to support the November Referendum. This initiative, coupled with the continued full implementation of all cost reduction initiatives, could ensure that the GCSC returns to solvency.

- Conditioned on the GCSC Board of School Trustees approval of **ALL** cost reduction and revenue enhancement initiatives, **AND** the implementation of these initiatives, consider additional Common School Fund Loan Assistance to the GCSC.

- With the Referendum, the GCSC will be able to make payroll, make critical vendor payments and start to reduce its other liabilities. Without the Referendum or other revenue support the ability of the GCSC to continue as a Going Concern is questionable.

- In concert with the DUAB and the State of Indiana Department of Education, research options for dissolving or consolidating the GCSC if the Fall ADM shows a material decline in enrollment.